RECORD AND BRIEFS

No. 15-1189

In The

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* SANDISK CORPORATION IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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INTEREST OF *AMICUS CURIAE*[1]

This brief supports the position of Petitioner Impression Products, Inc. on Question Two posed in the Petition for Writ of Certiorari:

> Whether, in light of this Court's holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine "makes no geographical distinctions," a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.[2]

Amicus curiae SanDisk Corporation is a Fortune 500 company, headquartered in Silicon Valley. It is one of the largest manufacturers of flash memory in the world. Its products are used in data centers and consumer products such as smartphones, tablets, cameras, and laptops. A global

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[1] The Petitioner has consented to the filing of this brief. The Respondent has lodged a letter of consent with the Clerk of the Court in accordance with Supreme Court Rule 37.2(a). The parties were given ten days' notice prior to the filing of this brief, as required by Supreme Court Rule 37.3(a). Pursuant to Supreme Court Rule 37.6, no counsel for any party has authored this brief in whole or in part, and no person or entity, other than *amicus* and their counsel, made a monetary contribution intended to fund the preparation or submission of this brief.

[2] Petition ("Pet.") at i.

company, SanDisk has more than 8,600 employees worldwide; manufacturing facilities in China, Japan and Malaysia; and facilities for sales, operations, administration, and research and development in countries ranging from Germany to the United Arab Emirates.[3] Its products are available at 300,000 retail stores in more than 100 countries. SanDisk holds more than 5,000 patents worldwide, with issued patents in the United States and more than twenty other countries.

SanDisk is directly interested in the development of the law on international patent exhaustion. SanDisk produces and purchases overseas electronic components that are integrated into downstream products sold in the United States. SanDisk therefore has a very strong interest in ensuring that the end products are not encumbered by thousands of competing patent claims. The patent-exhaustion doctrine effectively frees product components of patent rights after the first authorized sale, enabling more complex products to be made and sold free of overlapping patent rights. The doctrine is therefore critical to the success of global technology manufacturers like SanDisk.

For reasons set forth below, SanDisk believes that the *Jazz Photo* rule undermines the important purposes of the exhaustion doctrine and that, in

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[3] SanDisk maintains facilities for sales, operations, administration, and research and development in the United States, China, France, Germany, India, Ireland, Israel, Japan, Korea, Russia, Scotland, Singapore, Spain, Sweden, Taiwan, and the United Arab Emirates.

light of *Kirtsaeng*, this Court should overrule *Jazz Photo* to the extent that it held that a sale of a patented item outside the United States never gives rise to United States patent exhaustion.

SUMMARY OF ARGUMENT

Joined by amicus, the petitioner in this case asks this Court to clarify the scope of the "longstanding doctrine of patent exhaustion," also known as the first-sale doctrine, which dictates that "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc. v. LG Elec., Inc.*, 553 U.S. 617, 625 (2008).

Recently, in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), this Court held in the copyright context that geography has no impact on exhaustion, *id.* at 1358—i.e., that exhaustion does not depend upon whether the authorized first sale occurs in the United States or abroad. *Id.* at 1372 (Kagan, *J.*, concurring). But the Federal Circuit has now reached the opposite conclusion in the patent context, holding that a patentee's authorized first sale does not exhaust the patentee's patent rights unless the first sale occurs within the United States.

Amicus believe that three factors counsel strongly in favor of granting the Petition.

First, the Petition demonstrates that the Federal Circuit has again adopted, without express Congressional authorization, a special patent doctrine that departs from familiar and generally applicable legal principles.

This Court has instructed the Federal Circuit that where "[n]othing in the Patent Act indicates that Congress intended . . . a departure," familiar legal principles should "apply with equal force to

disputes arising under the Patent Act." *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 391–92 (2006). In *Kirtsaeng*, the Court inquired into the common-law understanding of the first-sale doctrine. It found that familiar legal principles against restraints on alienation dictated that under the common law, geography should have no impact on exhaustion. *Kirtsaeng*, 133 S. Ct. at 1363. The Court then ruled in interpreting the Copyright Act's codification of the first-sale doctrine that no contrary requirement of statutory interpretation dictated a departure from the common-law understanding of the first-sale doctrine.

But the Federal Circuit sitting *en banc* in *Lexmark* found just the opposite—that familiar legal principles against restraints on alienation undergirding the first-sale doctrine do *not* apply in the patent context. In the face of these principles, the Federal Circuit distinguished *Kirtsaeng* as solely an interpretation of the language of § 109(a) of the Copyright Act. The Federal Circuit therefore found the lack of comparable statutory language in the Patent Act to be sufficient reason to ignore *Kirtsaeng*'s interpretation of common law. But the court failed to point to any language in the Patent Act indicating that Congress intended a departure from the common-law understanding of the first-sale doctrine.

Second, the holding in *Lexmark* is founded upon a "U.S. market reward" rationale that lacks support in economic logic or legal authority.

As its rationale for rejecting international patent exhaustion, the Federal Circuit held that the Patent

Act ensures a patentee the right to receive a "U.S. market reward"—a reward that the Federal Circuit assumes can be fulfilled only if the patentee is guaranteed the right to profit from at least one sale of every patented article inside the geographic United States. *See* Pet. at 76a–78a.

But the Federal Circuit failed to recognize that a patentee obtains its "U.S. market reward" whenever a product is sold abroad for a higher price reflecting the *expectation* that it will be incorporated into a downstream product sold in the United States. The *Lexmark* rule therefore may result in overcompensation of patentees who effectively collect their monopoly price twice, in violation of long-established patent law and policy. The same is true where foreign sales are made pursuant to an unconditional worldwide license in which each party presumably received its market reward when it agreed to the license terms.

Third, *Lexmark*'s geographical limitation on the exhaustion doctrine undermines policies critical to the functioning of a free and innovative economy. It unnecessarily increases the administrative burdens on technology companies that create complex products incorporating patented component parts imported from abroad. It also reduces the general welfare of the American consumer by raising the prices of technological and pharmaceutical products. And it enforces restraints on alienation that may persist through years and multiple transactions.

ARGUMENT

I. Review is necessary to ensure that patent law remains consistent with familiar legal principles that govern in other contexts.

As in *eBay v. MercExchange*, the Court should grant review to clarify that a patent-specific rule unsupported by statutory language cannot stand when in tension with the requirements of familiar legal principles that govern in other comparable disputes.

Where nothing in the Patent Act requires a departure from familiar principles, those principles govern with as much force as in any other type of controversy. *eBay*, 547 U.S. at 391–92; *see also Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2254 (2011) (Thomas, *J.*, concurring) (stating that where the Patent Act "is silent," "it did not alter the common-law rule.").

In *eBay v. MercExchange*, this Court considered whether a federal court—in determining whether to award permanent injunctive relief to a prevailing plaintiff in a patent dispute—should employ a patent-specific rule or the four-factor test prevalent in other contexts. The patent-specific rule provided that "courts will issue permanent injunctions against patent infringement absent exceptional circumstances." *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005). The familiar four-factor test prevalent in other contexts, including copyright cases, required a plaintiff to demonstrate, *inter alia*,

"that remedies available at law, such as monetary damages, are inadequate."[4] *eBay*, 571 U.S. at 391.

This Court overruled *eBay*'s novel approach, observing that "[n]othing in the Patent Act indicates that Congress intended . . . a departure" from the traditional four-factor test. *eBay*, 547 U.S. at 391–92. The Court further noted that applying the traditional four-factor test "is consistent with our treatment of injunctions under the Copyright Act." *Id.* at 392. The Court reasoned that, in the absence of contrary statutory language, "familiar principles"—such as those applicable in the Copyright context—"apply with equal force to disputes arising under the Patent Act." *Id.* at 391.

eBay was merely one of several recent cases in which this Court has disapproved novel doctrinal creations in the patent field. For instance, in *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007), this Court struck down the Federal Circuit's teaching, suggestion, or motivation test ("TSM test") for obviousness,[5] in favor of a more "expansive and flexible"

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[4] "A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction." *eBay*, 571 U.S. at 391.

[5] Under the TSM test, a patent claim is only obvious if "'some motivation or suggestion to combine the prior art teachings' can be found in the prior art, the nature of the problem, or the

approach found in prior Supreme Court precedent. *Id.* at 415. Similarly, in *Octane Fitness*, this Court disapproved a "rigid" standard[6] for determining when a patent case is "exceptional," thus warranting fee-shifting, under 35 U.S.C. § 285. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). In doing so, this Court noted that its holding rendered patent law consistent with "the comparable context of the Copyright Act." *Id.* at 1756.

Like *eBay*, *KSR*, and *Octane Fitness*, this case presents a clash between a patent-specific rule and a familiar legal rule prevalent in another context (copyright law). Only three years ago, this Court confirmed in *Kirtsaeng* that under the first-sale doctrine, as codified in the § 109 of the Copyright Act, 17 U.S.C. § 109, sales outside the United States exhaust copyrights. *Kirtsaeng*, 133 S. Ct. at 1365, 1371; *see also Quality King Distrib., Inc. v. L'anza Research Int'l Inc.*, 523 U.S. 135, 145 n. 14 (1998) ("[T]he owner of goods lawfully made under the [Copyright] Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad."). But

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knowledge of a person having ordinary skill in the art." *Id.* at 407.

[6] "[A] case is 'exceptional' under § 285 only 'when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions.'" *Id.* at 1754 (quoting *Brooks Furniture Mfg., Inc. v. Dutailer Int'l, Inc.*, 393 F.3d 1378 (2008)).

Lexmark nevertheless held that a first sale outside the United States does not exhaust patent rights.

In reaching its patent-specific holding, the Federal Circuit attempted to distinguish *Kirtsaeng* as purely an exercise in statutory interpretation, inapplicable to patent law. But *Kirtsaeng*'s statutory holding was both informed by and consistent with its understanding of the first-sale common-law doctrine, which is broadly applicable to *all* property. This Court reasoned as follows.

1. *Kirstaeng* teaches that the first-sale doctrine originated in the common law. *Id.* at 1363. English common law reflected the longstanding English policy against restraints on the alienation of chattels. *Id.* Consistent with this longstanding policy, the first-sale doctrine "frees courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily moveable goods." *Id.*

2. The Copyright Act codified the common-law first-sale doctrine. And "[w]hen a statute covers an issue previously governed by the common law," the Court "must presume that Congress intended to retain the substance of the common law." *Id.* (internal quotation marks omitted). An analysis of the substance of the common law led the Court to conclude that the first-sale doctrine "makes no geographical distinctions." *Id.*

3. The Court found "no [statutory] language, context, purpose, or history" in the Copyright Act "that would rebut a 'straightforward application' of [the common-law first-sale] doctrine." *Id.* at 1364.

These conclusions bear directly on *Lexmark*. First, consistent with its common-law origins, the purpose of the first-sale doctrine in patent law is to prevent restraints on the alienation of chattels. And "[s]ince patents are privileges restrictive of a free economy, the rights which Congress has attached to them must be strictly construed . . . ." *United States v. Masonite Corp.*, 316 U.S. 265, 280 (1942).

Second, although the Copyright Act, unlike the Patent Act, has not codified the first-sale doctrine, that distinction presents an *a fortiori* case for adhering to familiar legal principles grounded in common law. Where Congress has not codified the underlying patent-exhaustion rule, there is simply no authority at all—in text, or its associated context, purpose, or legislative history—that rebuts a straightforward application of the common law. Thus, in the face of Congressional silence as to the scope of the first-sale doctrine, *Kirtsaeng*'s common-law determination that the first-sale doctrine "makes no geographical distinctions" should control. *Kirtsaeng*, 133 S. Ct. at 1363. The logic of *Kirtsaeng* thus suggests that patent rights, like copyrights, are exhausted by a first sale abroad.

II. The Federal Circuit's emphasis on a "U.S. market reward" will result in the overcompensation of patentees.

The Federal Circuit's *en banc* opinion reasoned that the Patent Act "gives patentees the reward available from American markets." Pet. at 76a. The opinion concluded that "[a] patentee cannot reasonably be treated as receiving that reward from sales in foreign markets," *id.*, and that international patent exhaustion therefore contravenes the Patent Act.

The Federal Circuit reasoned that the Patent Act "expressly provides to a U.S. patentee" "the reward available from the right to exclude 'in the United States.'" *Id.* at 76a (citing 35 U.S.C. §§ 154(a)(1), 271(a). This reward is characterized as a market reward; and the Federal Circuit declared without citation that "the market reward, under the statute, is explicitly the reward available from American markets subject to American laws, a reward obtained by selling or authorizing sales in those markets." *Id.* at 77a. The Federal Circuit elaborated on the difference between American markets and international markets—in regulation, disparities in wealth, and patent protection—concluding that "[t]he guarantee [which serves as the basis for exhaustion] is the reward from sales in American markets, not from sales in foreign markets." *Id.* at 78a.

The Federal Circuit's approach is likely to result in the overcompensation of patentees. In a competitive marketplace where sellers price discriminate, the prices of patented products reflect the value of the product's ultimate expected use. *See generally*

Jean Tirole, THE THEORY OF INDUSTRIAL ORGANIZATION 133, 135 (1988) ("[T]he producer may observe some signal that is related to the consumer's preferences (e.g., . . . location) and use this signal to price discriminate . . . ."). Thus, a patentee may receive a "U.S. market reward" simply by virtue of the fact that a product first sold abroad is *expected* to be incorporated into a downstream product sold in the United States. This expectation in a competitive marketplace will result in a higher initial sale price. The patentee would therefore recover both a price premium from its initial sale abroad, as well as profits from its product's first sale within the United States. Absent international patent exhaustion, the patentee may effectively receive its "U.S. market reward" twice.

That result would offend the basic patent-law principle that patentees should be allowed to extract monopoly profits from the sale of a patented article only once. *See generally* Margaret Barrett, *The United States' Doctrine of Exhaustion: Parallel Imports of Patented Goods*, 27 N. KY. L. REV. 911, 912–13 (2000) [hereinafter *Parallel Imports*]. The "single-reward principle" has venerable roots. *See generally* John A. Rothchild, *Exhausting Extraterritoriality*, 51 SANTA CLARA L. REV. 1187 (2011). Allowing patent owners to "double-dip" and extract additional monopoly profits from downstream purchasers would upset the patent system's carefully crafted balance between "motivating innovation" and "avoiding monopolies that unnecessarily stifle competition." *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998). This overcompensation would result in "a mismatch between invention

and reward." *Bowman v. Mosanto Co.*, 133 S. Ct. 1761, 1767–68 (2013). The same is true under an unconditional worldwide license, in which each party presumably received its market reward when it agreed to the license terms.

III. The Federal Circuit's decision has grave consequences for the American economy.

The issue of international patent exhaustion has enormous consequences for the American economy and global welfare. The scale and diversity of interests impacted by the Federal Circuit's decision warrants this Court's attention. For four independent reasons, we urge this Court to grant certiorari.

First, the Federal Circuit's opinion generates needless cost and uncertainty by allowing patent-infringement claims to attach to an article that has already been the subject of an authorized first sale. As the Petition highlights, "[t]he modern supply chain for consumer goods is astonishingly complex." Pet. at 33. And complex technological products, ranging from iPhones to semiconductors, will "often embody hundreds if not thousands of 'potentially patentable' technologies." *Id.* (quoting Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979-1995*, 32 RAND J. ECON. No. 1, 101, 110 (2001)). Many of these potentially patentable components are imported from abroad.

The Federal Circuit opinion thus places extra administrative burdens and legal barriers on com-

panies like SanDisk, which are forced to track the upstream sales histories and associated patent claims of each of its products' many component parts. The added information cost of verifying that no single component is protected by a U.S. patent discourages the creation of complex products that incorporate new components. In contrast, international patent exhaustion affords certainty and predictability to purchasers of patented articles—and thus streamlines and incentivizes production of new technologies in the United States.

Second, the Federal Circuit's decision reduces the welfare of American consumers while providing a windfall to patent holders. *See, e.g.*, Gene M. Grossman & Edwin L.C. Lai, *Parallel Imports and Price Controls*, 39 RAND. J. ECON. 378 (2008) (concluding that a rule of international patent exhaustion would increase the wealth of consumers in the global North, including the United States). In contrast, a rule of international patent exhaustion would decrease prices for products—ranging from drugs[7] to

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[7] The Federal Circuit expressed concern about the impact that international patent exhaustion might have on the price of pharmaceuticals in developing nations. In the absence of international patent exhaustion, global pharmaceutical companies can price-discriminate, selling drugs cheaply in developing countries without fear that some of those low-priced drugs will find their way into the United States, depressing prices there.

But concerns about international drug pricing should be addressed through targeted legislation. For example, the Hatch-Waxman Act provides for reduced drug costs and greater access to drugs through a shortened approval process for generic manufacturers. Drug Price Competition and Patent Term Res-

smartphones to semiconductors—sold in the United States. A KPMG study estimated the cost savings to Americans at roughly $10 billion in 2007 alone. KPMG, *Effective Channel Management Is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line* (2008).

Third, the Federal Circuit's decision hampers the operation of free markets. The exhaustion doctrine is rooted in the law's "general abhorrence of restraints on alienation, and the interference [that] such restraints impose on a free market." *Parallel Imports* at 912; *see also LifeScan Scotland, Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361, 1376 (Fed. Cir. 2013). Absent a robust patent-exhaustion doctrine, patent-infringement claims "survive numerous transactions regarding the patented good, allowing the force of the patent to intrude deeply into the stream of commerce." *Quanta*, 553 U.S. at 630 n.5 (citation omitted). The Federal Circuit's decision would allow patent rights to remain attached to an article that has been in the stream of commerce for years and has been the subject of multiple transactions. That is exactly the kind of restraint on alienation that motivated courts to recognize the common-law first-sale doctrine.

Fourth, the scale of interests implicated counsels this Court to grant certification. The U.S. Bureau of Economic Analysis reported that in 2011, $40

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toration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified as amended in scattered sections of 21 & 35 U.S.C. (1994)). Courts should not broadly distort patent law to address problems best solved by targeted legislation.

billion of technology imports may be implicated by international-exhaustion policy. Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School Working Paper No. 09-098, at 1. And the impact of international exhaustion on global wealth distribution is likely just as vast, if not more so. The sheer economic scale of this issue warrants this Court's attention.

IV. The Federal Circuit's decision should be deemed explicitly inapplicable where parties have contracted to provide an unconditional worldwide license.

SanDisk also urges the Court to clarify that authorized sales made abroad under an unconditional worldwide license that contains no geographic restrictions are not subject to the Federal Circuit's decision in *Lexmark*. This would accord with the principle that the Patent Act only bars making, using, offering to sell, or selling patented technology "without authority," whereas conducting those activities under a license means doing them "with authority." *See* 35 U.S.C. § 271(a). As the Federal Circuit succinctly put it: "The proper focus is on whether the sales were authorized." *Tessera, Inc. v. Int'l Trade Comm'n*, 646 F.3d 1357, 1370 (Fed. Cir. 2011).

A rule that a sale anywhere in the world exhausts U.S. patent rights if that sale was authorized by an unconditional worldwide license comports with the reasonable expectations of the licensing parties, who are likely to be dealing in mobile goods that cross national borders. Conversely, the failure to recognize exhaustion in those circumstances would

unfairly extend the patent monopoly, disrupt those reasonable expectations, unduly hinder the licensee's rights, and stifle international trade.

The Second Circuit recognized nearly a century ago that granting an unconditional patent license for a highly mobile article that is expected to cross international borders exhausts the patentee's rights to block importation of that article into the United States or to receive damages for such importation. *See Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F. 71 (2d Cir. 1920). And several district-court decisions likewise hold that patent exhaustion results from foreign sales made under a negotiated license that expressly authorizes sales of the licensed technology anywhere in the world. *See SanDisk Corp. v. Round Rock Research, LLC*, No. 11-cv-5243, 2014 WL 2700583 (N.D. Cal. June 13, 2014); *Multimedia Patent Trust v. Apple Inc.*, No. 10-cv-2618-H (KSC), 2012 WL 6863471 (S.D. Cal. Nov. 9, 2012); *STMicroelectronics, Inc. v. SanDisk Corp.*, No. 05-cv-45, 2007 WL 951655 (E.D. Tex. Mar. 26, 2007).

That result could coexist with a restricted reading of *Lexmark* and *Jazz Photo*. A basic premise of those cases was that only sales "under a United States patent" can exhaust United States patent rights. The mere sale of a patented article outside of the United States was not made "under a United States patent" and therefore was held not to have exhausted United States patent rights. But where the parties negotiate for an unconditional worldwide license, sales made under that license are authorized sales "under" all of the licensed patents—including

the United States patents—wherever the sale may occur.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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